

102817
November 10, 2010

WHEREAS, the City is committed to supporting enhanced economic development opportunities for low-income communities within the City and to low-income persons residing within those communities; and

WHEREAS, the United States Department of Treasury has established the New Markets Tax Credit (NMTC) program to stimulate investments in predominately low-income communities; and

WHEREAS, the goals and purposes of the NMTC program are consistent with and complementary to the economic development programs previously established by the City to support expanded economic development opportunities for low-income communities within the City and to low-income persons residing within those communities; and

WHEREAS, under the NMTC program, tax credits are competitively awarded annually by the Treasury Department through its Community Development Financial Institutions (CDFI) Fund to qualified Community Development Entities (CDEs) after review and evaluation of applications submitted by CDEs, which are then made available to investors; and

WHEREAS, the City of Dallas created the Dallas Development Fund (DDF) as a non-profit Texas corporation in order to apply for an award under the NMTC program; and

WHEREAS, the DDF was awarded a \$55 million NMTC allocation under the 2009 NMTC program; and

WHEREAS, the DDF board has approved awarding of up to \$18.5 million in NMTC allocation to the Boutique Hotel project located at 1325 S. Lamar Street.

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:

Section 1. That the City Council hereby authorizes a NMTC transaction between the DDF and its subsidiaries, US Bank, N.A. and its subsidiaries, and Matthews Southwest and its partners for the restoration and development of historic property located at 1325 South Lamar Street into a boutique hotel as further described in **Attachment A**.

Section 2. That this resolution shall take effect immediately from and after its passage in accordance with the provisions of the Charter of the City, and it is accordingly so resolved.

Distribution: Office of Economic Development – Tenna Kirk, 5CS
 Office of Economic Development – Sajid Safdar, 2CN
 Office of Economic Development – Heather Lepaska, 5CS
 City Attorney's Office – Barbara Martinez
 City Attorney's Office – Sarah Hasib

APPROVED BY
CITY COUNCIL

NOV 10 2010


City Secretary

DATE: October 19, 2010

SUBJECT: Southside Boutique Hotel

Project Description

Applicant

Matthews Southwest is a full-service private real estate development company headquartered in Lewisville, Texas with offices in Dallas, Texas; Calgary, Alberta; and Mississauga, Ontario. Matthews Southwest has been active in the US, Canada, and Mexico, and has worked closely over the last ten years with the City of Dallas to redevelop parts of the South Side community. Their previous work in Dallas includes South Side on Lamar, the redevelopment of the former Sears Merchandising Center, as well as the Omni Dallas Convention Center Hotel.

Related/Sponsoring Entities

The Southside Boutique Hotel project is sponsored by CCH Lamar Partners I, LP, which is a partnership of Matthews Southwest and the Dallas Police and Fire Pension Fund. The Project is anticipated to receive an equity contribution from a fund established by the City of Dallas Regional Center (CDRC) for investors participating in the EB-5 immigrant visa program.

The proposed structure also includes a small equity contribution from a Dallas Development Fund subsidiary entity to facilitate federal Historic Tax Credit financing. It is anticipated that this funding would flow through a special-purpose Master Tenant entity that is primarily or wholly owned by a Dallas Development Fund Sub-allocatee.

The Qualified Active Low-Income Community Business (QALICB) receiving the financing from Dallas Development Fund's subsidiary is expected to be a special-purpose entity owned by CCH Lamar Partners I, LP and/or its individual members, the Master Tenant, and the EB-5 investor fund. This entity's sole purpose will be to develop, own, and operate of the real estate related to this project.

Project Description

The project is the redevelopment of an historic 55,000 square foot building at 1325 S. Lamar Ave into an approximately 76-room boutique hotel. The Developer is in the process of finalizing selection of an operator, which will likely be retained via a management contract. The hotel is anticipated to include a 2,100 square foot restaurant, 1,500 square foot lobby bar/lounge, and a 5,000 square foot rooftop pool lounge and bar area.

The project is part of the 42-acre South Side Master Plan transit-oriented development project that includes South Side on Lamar. It is located within three blocks of the Dallas Convention Center and one block from the Cedars Rail DART station. The project will be designed to achieve LEED Silver certification. The hotel will also be restored with historical accuracy to qualify for federal Historic

Rehabilitation Tax Credits.

Total project costs are estimated to be about \$19.1 million, subject to final refinement.

Financing Terms

NMTC Allocation Proposed

Up to \$18,500,000

NMTC Investor

The Dallas Development Fund has been in negotiations with US Bancorp Community Development Corporation (USB CDC) to purchase the NMTCs and Historic Tax Credits generated by the project.

Anticipated Closing Costs and Fees

The Dallas Development Fund will charge a Sub-allocation Fee of 3% of the QEI, (estimated at \$555,000 based on current deal size). In addition, the DDF will charge an annual Asset Management Fee of 0.25% of the QEI, (estimated at \$46,000 based on current deal size).

DDF will seek to separately secure reimbursement for costs associated with closing this transaction, as well as costs associated with maintaining the financing structure during the 7-year NMTC compliance period.

Financing Structure

The financing sources for this project are summarized in the table below.

Sources for NMTC Structure	Proposed Amount
CDRC EB-5 Fund Equity	\$3,900,000
Senior Leverage Bank Loan	\$4,000,000
NMTC Equity (USB CDC)	\$4,978,350
Sponsor Equity (CCH Lamar Partners I, LP)	\$5,621,650
Total	\$18,500,000

CCH Lamar Partners I, LP will form a Special Purpose Leverage Lender Entity to pool the EB-5 Equity, the CCH Lamar Partners I, LP Equity, and the Senior Leverage Bank Loan. This Leverage Lender Entity will then make a Leverage Loan of approximately \$13.5 million to an Investment Fund owned by USB CDC. USB CDC will contribute the NMTC Equity to this fund for a total QEI of approximately \$18.5 million.

The QEI will be made to a Sub-allocatee of the Dallas Development Fund (anticipated to be DDF Alpha, LLC), which will in turn make one or more Qualified Low-Income Community Investment (QLICI) Loans to a special purpose entity designated as the Qualified Active Low-Income Community Business (QALICB). These loans will be estimated at \$17.9 million.

In addition, the DDF Sub-allocatee will make a small (approximately \$10,000) Equity QLICI to a special purpose Master Tenant entity, owned 100% by the DDF Sub-allocatee. The Master Tenant will in turn make a \$10,000 Equity QLICI to the QALICB.

Finally, CCH Lamar Partners I, LP will make a projected \$200,000 equity contribution to the QALICB, and the CDRC EB-5 Fund will contribute approximately \$100,000 equity to the QALICB. The total capitalization of the QALICB is estimated at approximately \$18.2 million, with deferred developer fees making up the balance of the project sources.

Once the project is placed in service and HTCs are available to USBCDC through the Master Tenant/Investment Fund structure, USBCDC will contribute approximately \$1.4 million in HTC Equity to the Investment Fund. The Investment Fund will use the HTC Equity to pay down the Junior Leverage Loan from the Leverage Lender Entity. The Leverage Lender Entity will in turn use the funds to pay down the Senior Leverage Loan.

Additional Sources of NMTC Allocation

None

Closing Timeline

This project is expected to close in 1st Quarter 2011.

Community Benefits and Need for Assistance

Community Benefits

The Southside Boutique Hotel is estimated to create 35-40 permanent full-time positions at competitive wages, including benefits. Per the Developer, a minimum of 75% of the jobs will be available to local and/or low-income residents. The project also plans to pursue 25-30% M/WBE participation. In addition, the project will preserve and restore a presently vacant historic structure.

The Southside Boutique Hotel project will complement and enhance the ongoing revitalization work of the South Side Master Plan Transit-Oriented Development. The master plan already includes South Side on Lamar, the Dallas Convention Center Hotel, the Dallas Police Headquarters, the Beat condominiums, the Dallas Community College District Central Office, and a \$5.5 million S. Lamar Pedestrian Improvement Project. The Southside Boutique Hotel will keep the South Side Master Plan moving forward during difficult economic times, and will fill needed gaps in the overall project programming. The project will pursue LEED Silver certification, which will reduce future energy usage and enhance the overall sustainability of the South Side Master Plan development.

The Southside Boutique Hotel project fulfills many expressed policy goals within the City of Dallas, including the preservation of threatened historic buildings, transit-oriented development, and green/sustainable development.

Need For NMTC Assistance

This project would not be financially feasible without NMTC assistance. The project does not generate the annual cash flow necessary to support the capital costs associated with renovating and preserving this historic structure on a conventional financing basis. In addition, traditional financing for hotel projects is extremely scarce in the current credit environment. The project has limited debt capacity,

and without NMTC assistance would not be able to generate strong enough returns to attract private equity investment.

The NMTC structure also allows mutual leveraging with the Historic Tax Credits and the EB-5 Program funds. This provides for more powerful “gap financing” and is consistent with DDF’s stated goal of using EB-5 equity as a complementary source for NMTC transactions.

Other Public Assistance

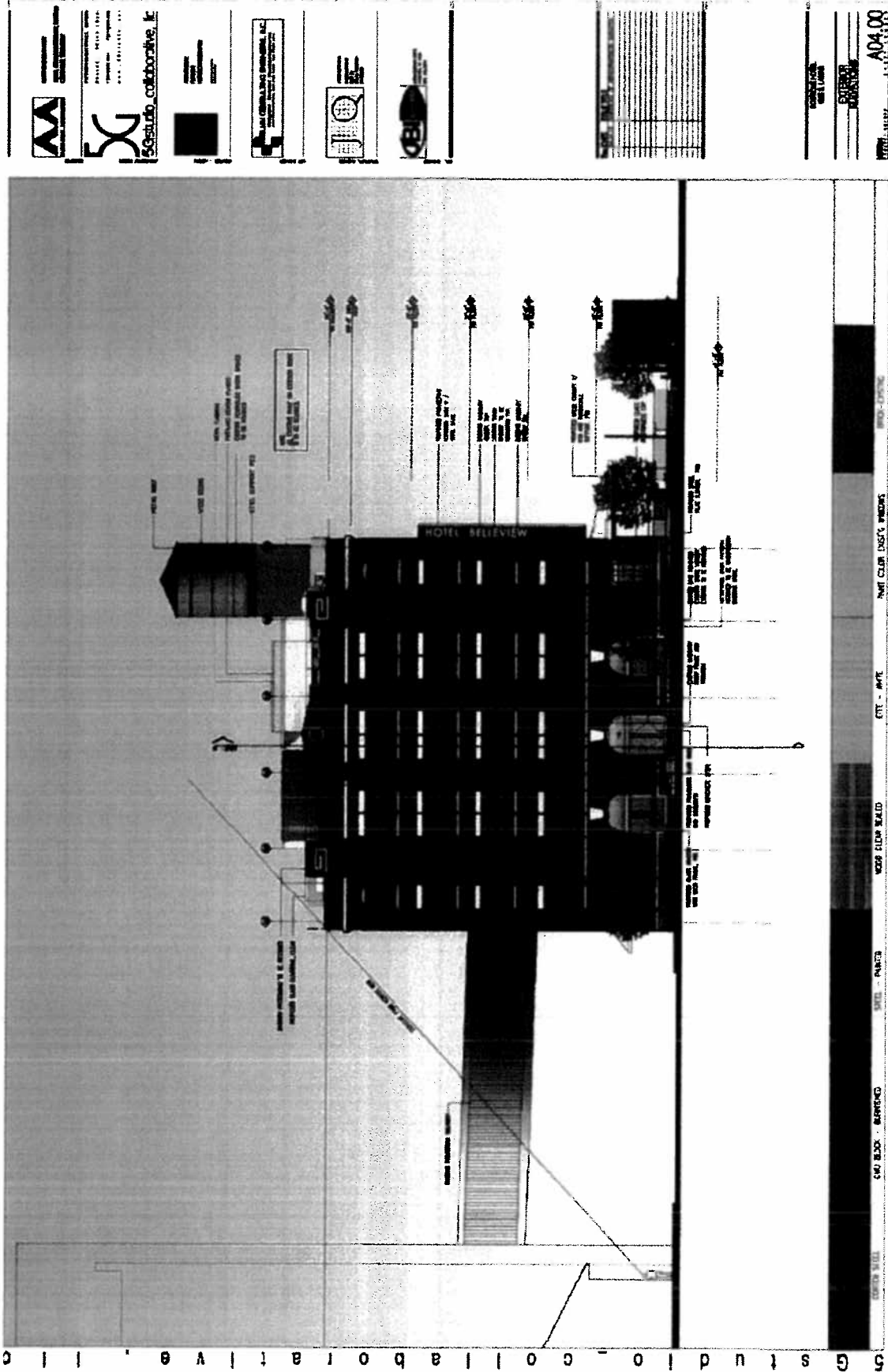
The Southside Boutique Hotel project anticipates participating in the programs mentioned above, including the CDRC EB-5 Program and federal Historic Tax Credits. In addition, Matthews Southwest is pursuing a City of Dallas Historic Tax Exemption.

The project has the support of the City’s Office of Economic Development.

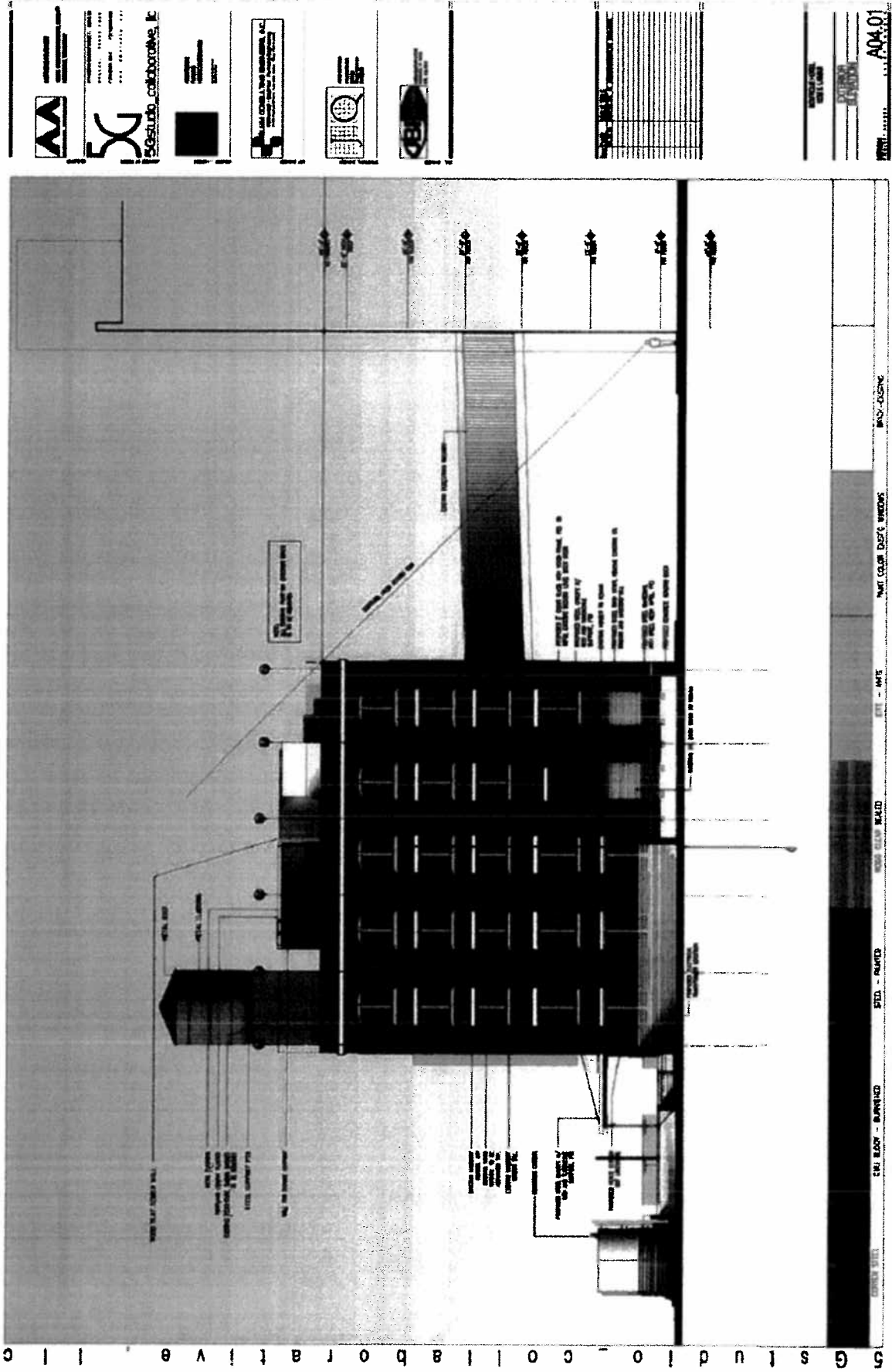
Project Images



Existing Building



Project Rendering - Front Elevation



Project Rendering – Rear Elevation



South Side Master Plan and Dallas Convention Center Rendering

As seen from South Side on Lamar development